VALUATION & ADVISORY

Newmark Knight Frank

HOSPITALITY, GAMING & LEISURE

HOTEL MARKET OCCUPANCY APPROACHING ZERO? THIS TIME IT’S DIFFERENT.

As hotel operators grapple with the best strategies to get through the COVID-19 crisis, all are generally experiencing fallout in demand regardless of which tactics are being employed. It is important to recognize that the intensifying demand vacuum is not currently the result of a systematic economic downturn, but that of a natural disaster.

With most natural disasters, there tends to be a short period of business interruption often accompanied by a spike in activity that involves a mixture of pent-up, backlogged, typical-transient and disaster-response demand in the lodging sector. The more widespread a disaster event is, the longer the typical array of travelers is displaced. During the recovery period, a considerable portion of the displaced demand will venture to other markets.

These phenomena influence the Lodging Performance Index (LPI*) of all markets involved – directly impacted markets and alternative markets experiencing displaced demand. Hotels that are initially negatively impacted by a natural disaster might be covered by insurance or state/federal relief; however, the actual fundamentals of the affected market can improve almost immediately. The economic impact of disaster response is generally highly beneficial to a market during rebuilding, and usually enough to more than compensate for lost momentum.

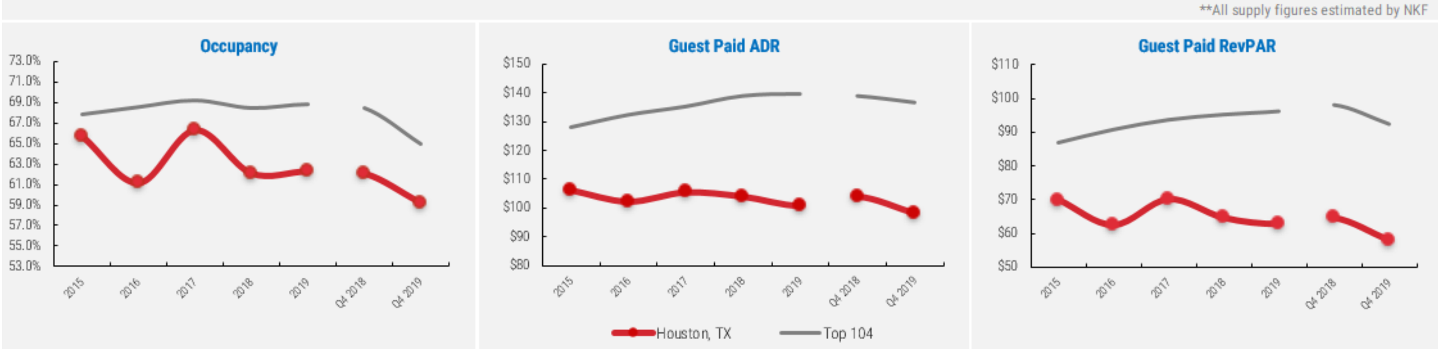
Key Performance Metrics

Data provided by: kalibri LABS

YEAR		Guest Paid		COPE*		Booking Cost	ADR COPE*	Loyalty	Avg. Length of	Supply	Performance
ENDING	Occ %	ADR	RevPAR	ADR	RevPAR	POR	%	%	Stay (Nights)	(Available Rms)	Index (LPI)
2015	65.7%	$106.33	$69.87	$98.44	$64.69	$7.89	92.6%	43.5%	2.50	78,000	1.18
2016	61.1%	$102.27	$62.53	$94.32	$57.67	$7.95	92.2%	45.1%	2.37	81,500	0.82
2017	66.3%	$105.54	$69.98	$97.54	$64.68	$8.00	92.4%	44.9%	2.56	84,400	1.04
2018	62.1%	$104.07	$64.62	$95.77	$59.46	$8.30	92.0%	49.3%	2.31	86,900	0.79
2019	62.3%	$100.84	$62.81	$92.70	$57.74	$8.14	91.9%	53.5%	2.24	89,600	0.66
CAGR: Q4 2015 thru 2019	**-1.3%**	**-1.3%**	**-2.6%**	**-1.5%**	**-2.8%**	**0.8%**	**-0.2%**	**5.3%**	**-2.7%**	**3.5%**	**-13.5%**
Q4 2018	62.1%	$104.07	$64.62	$95.77	$59.46	$8.30	92.0%	49.3%	2.31	86,900	0.79
Q4 2019	59.2%	$98.18	$58.11	$90.22	$53.41	$7.95	91.9%	55.0%	2.23	89,600	0.66

*COPE metrics do not account for Sales and Marketing Spend

**All supply figures estimated by NKF



***LPI/Lodging Performance Index:** NKF-generated measurement of a hotel market's effective overall performance, expressed as a weighted rank, using multiple key performance metrics as inputs. With a baseline of 1.0 (the average performance measurement of the top 104 hotel markets during the trailing four quarters of analysis), the index accounts for operating fundamentals and trends in nominal, inflation-adjusted figures.

For example, the Houston area experienced the costliest cyclone related natural disaster—Hurricane Harvey—in U.S. history at a staggering $125 billion. This event occurred in August 2017, at the onset of the market's peak lodging season. While numerous hotels were partially or fully destroyed, the market's LPI* increased considerably over 2016 due to increased demand from residents displaced from the hurricane, FEMA and other government personnel and insurance agents.

The charts on the previous page illustrate key performance metrics for the Houston, Texas lodging market over the three-year period leading up to and years following this event, along with the resulting LPI.

As shown, Houston's LPI increased from 0.82 in 2016 to 1.04 in 2017, primarily due to the impacts brought on by a large-scale injection of disaster relief-related activity. In subsequent years, the LPI retracted again. This was due to an over-exuberance of new supply additions as well as headwinds in the energy sector (one of Houston's primary economic drivers).

Link to complete Houston, TX Nsights Report

However, the COVID-19 crisis is different; it is a globally-synchronized event that has impacted virtually every market as an alternative destination. While there are various industries and mechanisms of the global economy that involve human contact, which perpetuates viral spread, few are primed to do so in a more uninhibited, unchecked fashion than the hospitality sector.

Most in the industry have kept meticulous tabs on the performance of certain markets with respect to key performance measures–occupancy, room rate and revenue per available room (RevPAR)–through this time. In past downturns, the resilience of a market was judged by its ability to maintain healthy top-line measurements or control the amount by which it contracted. However, this downturn will be quantified as much by the velocity at which a market recovers from its bottom as by how severely operating fundamentals recess.

We will continue to see all performance metrics eroding in the coming weeks with an immediate and ongoing impact on underlying values. Simply comparing relative declines among lodging markets will not provide an accurate picture of the health and resilience of a given property or market and its ability to fully recover. While not intuitive, occupancy levels declining quickly may be an indicator of how responsive operators have been in temporarily shutting down or repurposing their properties. The longer operators in certain markets resist the downturn by remaining open for business, the greater the potential for a prolonged crisis. Activity that protracts a disaster event will, of course, delay the healing process.

A more rapid relative decline in hotel performance is likely indicative of a more aggressive response to the crisis. A quick wind-down in operations is a difficult task to accomplish. It involves a careful but speedy orchestration of staff furloughs, prioritized maintenance, recalibrating incoming supplies and ongoing planning for a variety of scenarios that are constantly evolving, all while keeping the customers happy and the workforce loyal. This same skill will be called upon when the industry reboots and the property reopens; or comes back from being repurposed (i.e., medical overflow). All of these protective measures will need to be rolled back and recapturing lost demand will need to be executed in an orderly and safe fashion. The net result is that a given market's key performance indexes will not always provide an accurate picture of the overall resilience of the market and it's expected performance going forward.

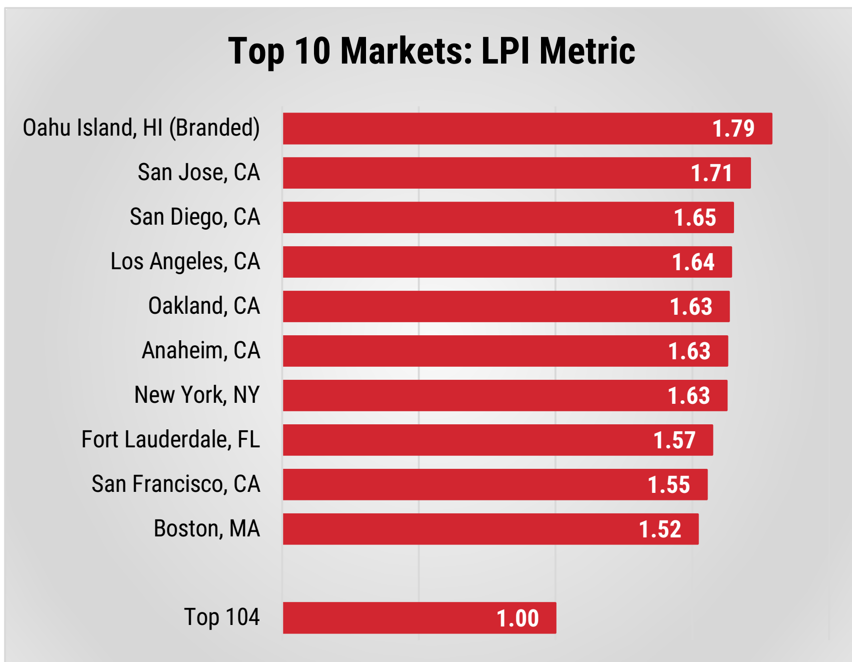
Newmark Knight Frank (NKF) Valuation & Advisory's (V&A) Hospitality, Gaming and Leisure group continually analyzes the top 104 U.S. lodging markets to forecast certain trends and value implications for its clients. Among the tools developed by NKF V&A is the Lodging Performance Index (LPI). Based on years of research, data from various trusted sources, and statistical analysis of a myriad of hotel operating components (occupancy, ADR, RevPAR, booking costs, expense ratios, brand positioning, tier inventory, channel sourcing, etc.), LPI offers a dynamic snapshot of a hotel market's resilience while being subjected to a variety of external forces. A rating of 1.0 indicates a performance measurement that is equal to the weighted average performance of the top 104 markets in the trailing four quarters of analysis. A rating above 1.0 implies superior performance relative to the weighted average, while a rating below 1.0 implies inferior performance relative to the weighted average.

The list below exhibits the top 10 markets with the highest LPI metrics – the highest degree of resiliency and the most likely to fully and quickly emerge post-COVID-19:

Link to Top 10 NKF Nsights Reports
(in alphabetical order by city)

As illustrated, markets with the highest LPI metrics are not solely based on the typical variety of hotel key performance indexes. For a deeper understanding of the underlying economies, demand generators, trends, and LPI rationale, please click on the link to access the respective NKF Hotel Market Nsights Reports.

For access to any of the other top 104 markets, please contact nsightsinfo@ngkf.com.



Source: Newmark Knight Frank

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